

Service Date: November 28, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER of the Application )	UTILITY DIVISION
of the BUTTE WATER COMPANY for )	
Authority to Increase Rates and )	DOCKET NO. 88.9.29
Charges for Water Service to its )	
Butte, Montana Customers. )	ORDER NO. 5382

INTERIM RATE ORDER

APPEARANCES

FOR THE APPLICANT:

James Robischon, Attorney at Law, Murphy, Robinson, Heckathorn  
& Phillips P.O. Box 759, Kalispell, Montana 59903

FOR THE INTERVENORS:

Mary Wright, Staff Attorney, Montana Consumer Counsel, 34 West  
6th Avenue, Helena, Montana 59620

FOR THE COMMISSION:

Garth Jacobson, Staff Attorney, 2701 Prospect Avenue, Helena,  
Montana 59620

Ron Woods, Rate Analyst, 2701 Prospect Avenue, Helena, Montana

BEFORE:

JOHN B. DRISCOLL, Commissioner & Hearing Examiner  
HOWARD L. ELLIS, Commissioner

DANNY OBERG, Commissioner

BACKGROUND

On September 26, 1988, Butte Water Company (Applicant or BWC) filed an application with this Commission for authority to increase water rates and charges to its Butte, Montana customers on a permanent basis by approximately 14.7 percent. This constitutes an annual revenue increase of approximately \$571,137.

Concurrent with its filing for a permanent increase in rates BWC filed an application for an interim increase in rates of approximately 12.6 percent. The requested interim rate increase results in an annual revenue increase of approximately \$489,484, or 85 percent of the proposed permanent increase.

The percentage increases stated in Findings of Fact Nos. 1 and 2, differ from the percentage increases stated in the Applicant's original petition. This difference arises from the fact that the Applicant overstated its operating revenues in the original petition by \$94,754. While the percentage increase is greater than that contained in the original application no change in the revenue increase request has occurred.

On November 21, 1988, after proper notice, a hearing was held in the City Council Chambers, Butte, Montana. For the

convenience of the consuming public there was also a night session, that commenced at seven p.m. on November 21, 1988, at the same location. The purpose of the public hearing was to consider the merits of the Applicant's proposed water rate adjustment and to consider the adequacy of service provided water subscribers in BWC's Butte, Montana service area.

While the hearing was for the purpose of considering both service related matters and the Applicant's interim rate request this order will address only the Applicant's request for interim rate relief. The Commission will issue a separate order addressing the service related issues developed on the record in this Docket.

#### Testimony

At the public hearing, the Applicant presented the testimony and exhibits of:

James Chelini, President and General Manager, BWC  
Don Cox, Certified Public Accountant  
Mike Patterson, Vice President and Operations Manager, BWC

James Chelini. James Chelini, President and General Manager of BWC testified in support of the interim rate increase.

He sponsored Exhibits A, C and D. Exhibit A contained his prefiled testimony in the docket. Exhibits C and D were the

response to PSC data requests and the Montgomery study, respectively. The exhibits primary focus on the adequacy of service issues.

Don Cox. Don Cox, an accountant with Anderson Zurmuehlen & Co., testified on behalf of BWC. He sponsored into evidence Exhibit B, his prefiled testimony in the docket at hand.

He indicated that there was an error in the amount of \$94,752 in the prefiled testimony and attachments. This error was an improper amortization of the revenues received from the sale of property.

The error resulted in the the overstatement of revenues. BWC has understated its revenue requirements by \$94,752.

He also testified on the tax costs in the docket. He cited three cases in support of the request for the treatment of income tax expenses requested by BWC.

Mike Patterson. Mike Patterson, Vice President and Operations Manager for BWC, testified exclusively on the adequacy of service and the condition of the facilities.

At the public hearing the Montana Consumer Counsel presented the testimony of two public witnesses, Fritz Daly and Denise Sullivan. Neither of these public witnesses expressed support for the Applicant's proposed water rate increase as filed.

The two public witnesses indicated that, in their opinion, utility

facilities were badly deteriorated and service provided by the Company was deficient, therefore, these witnesses proposed that any increase authorized the Applicant be in conjunction with a planned improvement of the water facilities.

#### FINDINGS OF FACT

The Commission has insisted on a clear showing that the petitioning utility is suffering an obvious income deficiency before the Commission will authorize interim rate relief. The Commission finds that reference to the adjustments and rate of return approved in the most recent BWC general rate order provide an appropriate means to measure financial performance. Applying these parameters to current test period operating income and rate base, sensibly annualized and corrected for accounting errors, provides a financial picture consistent with the most recent Commission order.

A schedule prepared consistent with the above criteria shows that the BWC operations for the test period produced an overall return of a negative 1.71 percent (Table 1). This compares with an approved an overall rate of return of 12.25 percent, authorized in Order No. 5331.

Table 1

Net Income, Test Period	\$ 72,426
Annualized Adjustments:	
Electric Expense	(31,981)
Medical Insurance	(43,851)
Bad Debt Expense	1,996
Repairs	93,104
Pension - Non Union	(3,862)
Pension - Union	30,485
Wage Expense Union	(37,594)
Depreciation	612
Taxes Other Than Income	898
Income Taxes	<u>\$ 118,950</u>
Total Accepted Adjustments	\$ 128,757
Total Adjusted Net Income	\$ (56,331)
Total Rate Base	3,296,609
Rate of Return	(1.71%)
Allowed Rate of Return	12.25%
Required Earnings	403,835
Earnings Shortfall	460,166

The Commission finds that the difference between achieved and allowed rate of return constitutes an obvious income deficiency in this instance, that deferred rate relief until a final order can be issued may adversely affect the utility's financial condition and further that under its current ratemaking standards, the utility may be entitled to rate relief at the time the final order is issued by the Commission in this Docket.

The Commission finds that BWC's rate of return has eroded and accordingly, finds BWC entitled to interim rate relief. The Commission has determined that BWC is entitled to an interim revenue increase of \$460,166 on an annual basis.

In keeping with its generally accepted ratemaking practices the Commission's interim revenue requirement omits the Applicant's proposal to exclude imputed interest expense from the calculation of income taxes. Imputation of interest expense in the tax calculation, arises from the Applicant's use a hypothetical capital structure. The imputed interest issue was a contested item during the interim hearing, but the Commission is of the opinion that a more detailed examination of the Applicant's proposal should be undertaken, before implementing a change in general ratemaking practices.

The Applicant has requested that the interim relief determined appropriate in this Order be generated by increasing rates and charges to all customer classes on a uniform percent age basis. The Commission for interim purposes rejects the Applicant's rate design proposal.

In Docket No. 87.6.30 BWC prepared a cost of service study to develop the rate design that is currently in effect. The cost of service study prepared in that docket indicated that the

metered rate classification was generating revenues in excess of its cost of service. The Applicant in this Docket has not, thus far, presented any documentation to indicate that the metered rate classification's cost of service exceeds the revenue generated, therefore, the Commission finds that the Applicant should generate the increased revenues authorized herein by increasing rates and charges to all customers classes except metered customers.

#### CONCLUSIONS OF LAW

1. Butte Water Company is a public utility furnishing water service to customers in the Butte, Montana area, and is subject to the supervision, regulation and control of this Commission pursuant to Section 69-3-102, MCA.

2. Section 69-3-304, MCA, provides in part, "The Commission may in its discretion, temporarily approve increases pending a hearing or final decision.

3. The Commission concludes that the grant of an interim rate increase is just, reasonable and within the discretion granted by Section 69-3-304, MCA.

4. The increase granted herein is subject to rebate, with interest at the rate of 13.0 percent annually, should the final



order in this Docket determine that a lesser increase is warranted.  
Section 69-3-304, MCA.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Butte Water Company is hereby granted authority to implement on an interim basis increased rates for its Butte, Montana customers designed to generate additional annual revenues in the amount of \$460,166.

2. Butte Water Company is to file revised tariff schedules consistent with the Findings of Fact contained herein.

3. The interim relief granted in this Order is to be effective upon Commission approval of the revised tariff schedules.

DONE IN OPEN SESSION THIS 28th day of November, 1988 by a vote  
of 3 - 0 .

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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JOHN B. DRISCOLL, Commissioner

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HOWARD L. ELLIS, Commissioner

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DANNY OBERG, Commissioner

ATTEST:

Carol Frasier  
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.